

Abolish the Corporate Tax Rate - What do you think?

America's corporate income tax rate, at 35%, is the highest in the world. A rising chorus would like to bring it more in line with foreign rates, which average around 23%. I have a better idea—abolish the tax. The long-term benefits would greatly outweigh the short-term costs. And revenue from other sources, especially the personal income tax, would quickly make up for it and then some.

The corporate income tax has a curious origin. When Congress tried to tax the incomes of the growing number of wealthy Americans in the 1890s, the Supreme Court threw out the law as unconstitutional, calling it a direct tax. But the political pressure to tax the rich continued to mount. That's hardly surprising as the rich were, indisputably, undertaxed at the dawn of the 20th century. Most federal revenue came from tariffs and excise taxes on certain commodities, such as liquor. Both are taxes on consumption, but they were also regressive, falling most heavily on the working class.

In 1909 President William Howard Taft, a Republican, called for a constitutional amendment to establish a personal income tax and, meanwhile, persuaded Congress to pass a tax on corporate profits as part of the Payne-Aldrich Tariff Act. Technically an excise tax on the privilege of doing business as a corporation, there was no constitutional impediment to the tax. And since nearly all corporate stock was owned by the rich at that time, it was a way of taxing them indirectly but effectively.

Had the corporate income tax, meant as a temporary measure, been repealed when the 16th Amendment was ratified in 1913 and a personal income tax established, the country would have been spared a great deal of political and economic grief. But it was not, and the interaction of the two taxes has been the main engine driving the ever more complex income-tax system, as lawyers and accountants found ways to play one tax off the other. For instance, when personal income-tax rates soared to 75% during World War I, thousands of wealthy Americans simply incorporated their holdings to pay the far lower corporate tax rate.

What positive effects would abolishing the corporate income tax have? Many. Here's my Top 10:

First, that engine of tax complexity disappears. And with it disappears an army of lobbyists in Washington working to get favorable tax treatment for corporations.

Second, corporate managers are currently most concerned with after-tax corporate profits, because that is what the stock market cares about. But after-tax profits are largely an artifact of lobbying success in Washington. With no corporate income tax, management would concentrate on what is now pretax profits, an artifact of actual wealth creation.

Third, there would be no reason to tax dividends at lower rates to compensate for the fact that they now are paid out of after-tax profits. They would be taxed at the full rate, removing a perennial tool of leftist demagoguery.

Fourth, with suddenly increased profits, corporations would increase both dividends and investment in plant and equipment, with very positive effects for the economy as a whole and increased revenue to the government through the personal income tax.

Fifth, stock prices, which are a function of perceived future earnings, would rise substantially, inducing a wealth effect as people see their 401(k)s and mutual funds rising in value. That would lead to increased spending and thus increased tax revenues.

Sixth, the distinction between for-profit and nonprofit corporations would disappear. So nonprofit corporations would not have to jump through hoops to qualify for that status. And the IRS would have one less means of corruption available to it.

Seventh, much of the \$2 trillion of foreign earnings, now kept abroad to avoid being taxed when repatriated, would flow into this country. That would greatly increase the country's liquid capital. That, in turn, would cause interest rates to decline and investment in plant and equipment and new technology to go up, boosting the economy as a whole, and thus federal revenues.

Eighth, as the U.S. would now have the lowest corporate income-tax rate (which is to say, zero) instead of the highest, foreign corporations would flock to invest here, especially as they would not have to pay taxes on profits when they brought them back to their home country. Only the U.S. taxes repatriated offshore profits.

Ninth, foreign countries, faced with a huge investment boom in the U.S., would be forced to lower or eliminate their own corporate income taxes, increasing domestic corporate profits and thus domestic investment and personal income, helping to end the economic malaise that has lingered since the world-wide financial crisis of 2008.

Tenth, eliminating the corporate income tax would deal a blow to crony capitalism. Most U.S. government favors to industry are in the form of favorable tax treatment. Most subsidies for politically fashionable but otherwise unprofitable technologies, such as wind and solar power, are also part of the ever-expanding corporate tax code. No corporate tax code, no favorable tax treatment and no subsidies, except direct ones, which would be much easier to hold to political account.